



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 137 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 26th AND TUESDAY 27th JULY, 2021

The Monetary Policy Committee (MPC) met on the 26th and 27th July, 2021 faced with cautious optimism for the recovery of both the global and domestic economies. The performance of the global economy in the first two quarters of the year had been favourable and is expected to continue for the rest of the year. There is, however, renewed downside risk to this optimism associated with the fast spread of new and deadlier strains of the COVID-19 virus. The high rate of vaccination across the globe seems promising to drive herd immunity to reduce mortality rates. In the domestic economy, the continued support by both the monetary and fiscal authorities, is expected to yield favourable outcomes and hopefully return the economy to a strong recovery path in the next few quarters. The Committee reviewed the developments in the global and domestic economic and financial environments over the second quarter of 2021 and the outlook for the rest of the year.

Nine (9) members of the Committee were in attendance at this meeting.

Global Economic Developments

The Committee noted that while there has been reasonable gains in subduing the Pandemic, lowering of restrictions and reopening of several economies, the fast pace of mutation of new and deadlier strains of the virus is posing a downside risk to the full recovery of the global economy. In addition, the uneven access of vaccines across several countries is a significant risk to the attainment of global herd immunity. Despite the above challenges, governments all over the world have continued to ease restrictions to enable the recovery of supply chain networks and enhance aggregate demand. The

expected rebound in global output growth is dependent, therefore, on the efficient deployment of COVID-19 vaccines with the expectations that the evolving deadlier strains would be subdued. Even with the current outlook, the International Monetary Fund (IMF) projects global growth at 6.0 per cent in 2021, compared with the last projection of 5.5 per cent. In line with this, the Advanced Economies are projected to grow at 5.1 per cent while the Emerging Markets and Developing Economies are projected to grow at 6.7 per cent.

Price development across several economies is expected to remain moderate in the short to medium term with some prospects of a mild uptick. The Committee further noted the rise in inflation above the long run objectives of some key Advanced Economies, although reported as transient and therefore not expected to lead to an adjustment of the stance of monetary policy. There however, remains the lingering risk of an early return to monetary policy normalization, should price development continue to trend upwards. Across several Emerging Market and Developing Economies, inflationary trend was on average mixed, with some of the economies recording higher rates, compared with their peers. This was largely due to exchange rate pressures, capital flow reversals, high energy costs, weak supply chains and poor response to policy stimulus to combat the macroeconomic slowdown associated with the Pandemic.

In the global financial markets, the Committee noted the increased demand for equity securities, an indication of improved investor confidence in the global recovery. In addition, it observed the progressive weakening of long-term sovereign bond yields, as the demand for equities pick up. The MPC further noted the moderation in the price of gold, signaling reduced demand, as investors return to the financial markets. The unprecedented stimulus provided by monetary and fiscal authorities to ease the impact of the Pandemic has, however, heightened the risks of global financial crisis post-Pandemic and calls for central banks across the globe to remain vigilant, should the need for sudden policy adjustments arise.

Domestic Economic Developments

Real Gross Domestic Product (GDP) grew by 0.51 per cent in the first quarter of 2021, compared with 0.11 per cent in the preceding quarter. In the non-oil sector, Agriculture and Industry sub-sectors, were the major drivers of growth, with growth rates of 2.28 and 0.94 per cent, respectively. The oil sector, year-on-year, contracted by -2.21 per cent in first quarter of 2021, compared with -19.76 per cent in the previous quarter. The weak performance in the oil sector was attributed to several factors, including the declining quality of oil infrastructure, lack of new investment in the sector and the need to comply with the OPEC+ production quota.

The Committee noted that the Manufacturing Purchasing Managers' Index (PMI), improved to 46.6 index points in July 2021, compared with 45.5 index points in June 2021. Though it remained below the 50-index point mark, the improvement is an indication of gradual recovery of output growth in the economy. The Non-Manufacturing Purchasing Managers' Index (PMI) also increased to 44.8 index points in July 2021, compared with 43.0 index points in June 2021.

The employment level index for July 2021 stood at 46.5 index points, relative to the preceding month's figure of 45.0, but, remained below the 50.0-index point threshold. The Committee welcomed the sustained monetary and fiscal stimulus to revamp the domestic economy and hoped that the distribution of vaccines to subdue the Pandemic will continue unabated.

The Committee noted the continued moderation in headline inflation (year-on-year) to 17.75 per cent in June 2021 from 17.93 per cent in May 2021, the third consecutive month of decline. The decrease was attributed to a marginal decline in both the food and core components to 21.72 and 13.09 per cent in June 2021 from 22.28 and 13.15 per cent in May 2021, respectively. The MPC noted that, though, headline inflation remained well above the ceiling of the Central Bank's 6-9 per cent corridor, it expressed optimism that the current

interventions by the Bank in various sectors of the economy will further depress inflationary pressure as output growth improves and the negative output gap closes.

On the performance of monetary aggregates, the Committee noted that broad money supply (M3) declined to 2.02 per cent in June 2021, compared with 2.99 per cent in May 2021. This development was largely driven by a slowdown in the growth rate of Net Domestic Assets (NDA) and Net Foreign Assets (NFA). Net Foreign Assets contracted by 3.65 per cent due to the contraction of foreign asset holdings of the central bank, as well as non-interest, primary mortgage, and microfinance banks. The marginal decline in Net Domestic Assets reflected the slowdown in aggregate credit net, which decreased to 4.30 per cent in June 2021, from 4.79 per cent in May 2021.

Accordingly, aggregate credit at end-May 2021 stood at N24.23 trillion, compared with N22.68 trillion at end-December 2020. This represents a year-to-date increase of N1.55 trillion.

Under the Bank's development finance initiatives, the Bank granted ₦756.51 billion to 3,734,938 small holder farmers cultivating 4.6 million hectares of land, of which N120.24 billion was extended for the 2021 Wet Season to 627,051 farmers for 847,484 hectares of land, under the Anchor Borrowers' Programme (ABP); for the Agribusiness/Small and Medium Enterprise Investment Scheme (AGSMEIS), the sum of ₦121.57 billion was disbursed to 32,617 beneficiaries; and for the Targeted Credit Facility (TCF), ₦318.17 billion was released to 679,422 beneficiaries, comprising 572,189 households and 107,233 Small and Medium Scale Enterprises (SMEs).

Under the National Youth Investment Fund (NYIF), the Bank released ₦3.0 billion to 7,057 beneficiaries, of which 4,411 were individuals and 2,646 SMEs. Under the Creative Industry Financing Initiative (CIFI), ₦3.22 billion was disbursed to 356 beneficiaries across movie production, movie distribution, software development, fashion, and IT verticals.

Under the ₦1.0 trillion Real Sector Facility, the Bank released ₦923.41 billion to 251 real sector projects, of which 87 were in light manufacturing, 40 in agrobased industry, 32 in services and 11 in mining. On the ₦100 billion Healthcare Sector Intervention Facility (HSIF), ₦98.41 billion was disbursed for 103 health care projects, of which, 26 are pharmaceuticals and 77 are in the hospital services. Similarly, the sum of ₦232.54 million was disbursed to 5 beneficiaries under the CBN Healthcare Sector Research and Development Intervention (Grant) Scheme (HSRDIS) for the development of testing kits and devices for Covid-19 and Lassa Fever.

On the National Mass Metering Programme (NMMP), ₦36.04 billion was disbursed to 17 Meter Asset Providers, to nine (9) DisCos, for the procurement and installation of 657,562 electricity meters. On the Nigerian Electricity Market Stabilization Facility - 2 (NEMSF-2), the CBN released ₦120.29 billion to 11 DisCos, to provide liquidity support and stimulate critical infrastructure investment needed to improve service delivery and collection efficiency.

On money market development, the net liquidity position and interest rates in the economy reflected the impact of the Bank's liquidity management operations. Accordingly, the monthly weighted average Inter-bank Call and Open Buy Back (OBB) rates rose to 16.87 and 16.39 per cent in June 2021 from 15.95 and 16.18 per cent in May 2021, respectively.

The Committee noted the weak performance of the equities market despite the recent increasing patronage by domestic investors. The All-Share Index (ASI) decreased by 1.28 per cent to 37,947.18 on July 16, 2021, from 38,437.88 on May 31, 2021. Similarly, Market Capitalization (MC) decreased by 1.30 per cent to N19.77 trillion on July 16, 2021, from N20.03 trillion on May 31, 2021.

The MPC noted that the Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) both remained above their prudential limits at 15.5 and 41.3 per cent, respectively. The Non-Performing Loans ratio (NPLs) at 5.70 per cent in June 2021 showed progressive improvement, compared with 6.4 per cent in June 2020. The

Committee, however, urged the Bank to sustain its tight prudential regime to bring Non-Performing Loans (NPLs) below the 5.0 per cent prudential benchmark.

The Committee noted the marginal increase in the external reserves which rose to \$33.83 billion on 22nd July 2021 from US\$32.78 billion as at 30th June 2021.

Outlook

The overall outlook for both the global and domestic economies, remain clouded with downside risks despite the upbeat forecast for a speedy recovery. These risks include lingering uncertainties surrounding the path to the termination of the Pandemic, as new and deadlier strains of the virus continue to pose a significant threat to the efficacy of the COVID-19 vaccines. In addition, the uneven access to the vaccines across the globe is undermining the realization of the current forecast.

Capital flows to emerging market economies, remain uncertain as the pace of price development in the advanced economies pick up. While the US Federal Reserve Bank and other major central banks have given indications that the current rise in inflation is transitory, and may not require policy adjustment, inflation is confronted with a significant upside risk. This may result in an early return to monetary policy normalization, with adverse consequences for financial system stability.

Available data and forecasts for key macroeconomic variables for the Nigerian economy suggest a broad improvement for the rest of the year. This is hinged on continued progress with the containment of the Pandemic, as well as ongoing monetary and fiscal support. As a result, the Nigerian economy is forecast to grow in 2021 by 3.15 per cent (CBN), 3.0 per cent (FGN) and 2.5 per cent (IMF).

The Committee's Considerations

The Committee noted the gradual recovery in output growth following positive growth in the first quarter and improving PMI in subsequent months, expressing confidence that the second quarter output result will show further improvement.

The MPC carefully accessed the options confronting it in the short to medium term, analysing the downside risks to growth and upside risks to inflation. It commended the continued effort by both the monetary and fiscal authorities as well as public health agencies in stemming the Pandemic and its impact, thus, returning the economy to a path of recovery. While the economy has been gradually reopening, Members noted that the Pandemic was far from over and therefore continued to hinder the recovery. It thus, urged the Presidential Task Force on COVID-19 to intensify efforts towards procurement of more vaccines to ensure that herd immunity is achieved in Nigeria.

The MPC was concerned about the broad level of insecurity across the country, noting its impact on business confidence and overall economic activities. It noted the persisting insecurity in key commodity producing areas and urged the Federal Government to intensify security surveillance in farming communities to ensure uninterrupted farming activities. Committee members expressed optimism about the likely moderating impact of the forthcoming harvests on food prices, as this would contribute to the ongoing broad reduction in headline inflation. The CBN will continue to release maize from its strategic maize reserve directly to feed-millers as part of its strategic response to address rising food prices and moderate the price of maize across the country.

Members further noted the contribution of poor infrastructure to rising domestic price levels, re-iterating their call to the Federal Government to prioritize investment in public infrastructure such as improved transportation networks, power supply and telecommunication facilities. Funding for such projects, the Committee noted, could be sourced through Public-Private-Partnerships, as

well as the issuance of diaspora bonds. It emphasized the complementary role these bonds would play to boost foreign exchange supply, improving accretion to reserves and easing the exchange rate pressure.

Notwithstanding, the moderate decline in market indices, the Committee noted that the equities market remained in a good place, indicating sustained investor confidence in the Nigerian economy.

The MPC applauded the continued resilience of the banking system in the face of severe shocks to both the domestic and global economies. Members noted Management's effort in maintaining a reasonably low level of non-performing loans ratio, even though aggregate credit moderated slightly. The Committee encourages Nigerian banks to extend more credit to consumers and firms to enhance consumption and production activities necessary to strengthen the recovery.

Committee members noted the persistent reduction in remittance of oil revenue to the Consolidated Revenue Fund, stemming largely from rising levels of cost under-recovery and other obligations, particularly to Joint Venture Contracts. The Committee thus, urged the Government to continue to explore additional sources of non-oil revenue, as this would reduce the over dependence on a single revenue source.

Members applauded the efforts by the Federal Government to encourage the use of gas in motor vehicles and the payment for conversion of 1 million Premium Motor Spirit (PMS)-driven vehicles to gas-driven, to reduce overall cost of PMS consumption. The Committee encouraged the participation of private sector initiatives to develop and expand modular refineries while it frowns at cross-border smuggling of PMS.

The Committee also noted the increased contribution of the non-oil sector to Government revenue in recent times which reflected the gradual diversification of the economy and reduce reliance on crude oil export proceeds and called for increased support for the non-oil sector in the country.

Overall, Members were confident that the Bank was taking the right steps toward the restoration of macroeconomic stability, while noting the downside risks to growth and the upside risks to price developments.

The Committee's Decision

At this meeting, the MPC was delighted that inflation had begun to trend downwards, while output growth had remained positive. Committee, however, was of the opinion that there was a need to continue to put in place policy measures that will further and faster drive down inflation, while at the same time accelerate output growth to levels above population growth rate. Whereas, the arsenal at its disposal had almost become fully exhausted, MPC believe that there is the need to continue to use those tools that had been adopted so far, even in a more aggressive manner. MPC, therefore, encourage the Bank to continue using its existing administrative methods to rein-in inflation by the use of its discretionary CRR policy to mop-up liquidity from the banking system as the need arises.

The Committee also encouraged the Bank to continue the use of its intervention mechanism to deploy funds to output-stimulating and employment-generating sectors of the economy, such as, the Targeted Credit Facility, AGSMEIS, Agriculture and Manufacturing.

In the Committee's view, the current situation, neither gives room for tightening, as this will hurt output growth, nor, loosening, as this will exacerbate inflationary pressures.

On tightening, MPC feels that whereas this will limit excess liquidity available to attack the foreign exchange market, it nevertheless feels that tightening will reduce money supply and thus, inhibits the ability of Deposit Money Banks (DMBs) to create credit that is needed to stimulate manufacturing output which could also help to moderate prices.

On loosening, whereas MPC feels this should transmit into lower market interest rates which could improve the ability of obligors to repay their loans and reduce

NPLs, it nevertheless feels loosening would not only exacerbate inflationary pressure, but this would increase negative real rate of return and discourage investments in the domestic economy.

Based on the above considerations, the MPC made the decision to hold all policy parameters constant; believing that a hold stance will enable the continued permeation of current policy measures in supporting the recorded growth recovery and macro-economic stability.

The Committee thus decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent.

In summary, the MPC voted to:

- I. Retain the MPR at 11.5 per cent;
- II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;
- III. Retain the CRR at 27.5 per cent; and
- IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emeefie

Governor, Central Bank of Nigeria

27th July 2021

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

Global economic recovery prospects remain strong despite the third wave of the COVID-19 pandemic as most countries have learned better ways of coping with the Pandemic. In contrast to the initial approach anchored on lockdowns and movement restrictions, current responses are generally more activity friendly. Mass vaccination has increased resilience to the pandemic in the advanced economies, where economic recovery prospects are currently much brighter.

Current projections point to a phenomenal global output recovery in 2021 even as concerns are getting louder about the unevenness of the recovery outlook. In June 2021, the World Bank echoed this concern despite raising its global growth projection to 5.6 per cent for 2021. Earlier in April 2021, the International Monetary Fund (IMF) had expressed the same concern alongside a projection of 6.0 per cent global growth in 2021. The Fund left this global projection unchanged in the July 2021 update of the World Economic Outlook (WEO). The Organization for Economic Co-operation and Development (OECD) stands by its May 2021 projection of 5.8 per cent global growth, amidst concerns about uneven recovery. These projections are generally stronger than envisaged earlier in the year and reflect sustained (large) fiscal and monetary support in many countries, substantial progress with vaccination in the advanced economies, continuing adaptation of economic activity to the COVID-19 environment globally and a booming merchandise trade.

In the views of the World Bank (June 2021), many developing countries would continue to struggle with the pandemic's lasting effects, while the U.S. and China are expected to lead recovery in advanced economies and emerging economies, respectively. As a group, the Emerging Markets and Developing Economies (EMDEs) is projected to expand by about 6 per cent in 2021 with China leading the cluster with about 8.0 per cent growth in the year. The World Bank and the IMF project Nigeria's growth for 2021 at 1.8 and 2.5 per cent, respectively. Both projections place Nigeria on the side of countries likely to drag world output in 2021.

I see five (5) key factors underpinning the projected huge divergencies in economic recovery across countries. They are vaccination, pick-up in merchandise trade (pharmaceuticals, medical supplies and IT materials especially), fiscal support and monetary accommodation as well as initial

conditions. These factors largely explain why the U.S could attain about 7.0 per cent growth and China's 8.0 per cent in 2021. On the flip side, these same factors explain why economic growth in many developing countries may not be so robust in 2021. These countries are unable to make rapid progress with COVID-19 vaccination. They mainly export primary commodities with demand and prices unstable generally, and are heavy importers of pharmaceuticals, medical supplies and IT materials. Most of them have little fiscal space and limited room for further monetary maneuvers.

Although global inflation is trending upwards, reflecting rising commodity prices, pent-up demand and the general COVID-19-related supply shocks, central banks and fiscal authorities around the world have continued with injections to further spur economic activity. This is understandable since much of the current consumer price pressures appear to be transitory. I believe this to be largely the case with the current inflation pressures in Nigeria. As such, at the July meeting of the Monetary Policy Committee (MPC), I voted to retain all policy parameters despite the inflationary pressure. Other considerations that informed my decision at that meeting of the Committee are discussed in the rest of this statement.

First, at 17.75 per cent, headline inflation continued to slow in June 2021, reflecting moderation in both food and core consumer price inflation, year-on-year. Food inflation trended downwards from 22.28 per cent in May to 21.83 per cent in June 2021. Similarly, core inflation moderated to 13.09 per cent from 13.15 per cent in May. Even though these numbers are considerably high given the Bank's single digit policy-reference rate, the short-to medium-term outlook indicates continuing moderation owing to factors including base effect, seasonality and more crucially the routine sterilization actions of the CBN. On account of sustained sterilization, the averages for both inter-bank call and open-buy-back rates rose to 16.6 and 16.7 per cent, respectively, in June 2021, from 10.1 and 12.6 per cent in March. In effect, the economy's underlying monetary conditions are already tightening and should therefore forestall any likely inflation inducement from system liquidity.

Second, in the absence of Q2 GDP, the clearest indications of economic activity are from leading indices like the purchasing managers index (PMI), industrial production, energy consumption, etc. In June, the manufacturing and non-manufacturing PMIs were below 50 points at 45.5 and 43.0 points, respectively, reflecting high production costs and other structural constraints. Meanwhile the indexes of industrial production and manufacturing production rose only mildly in Q2, 2021. And so, against the background of a weak real GDP growth of 0.51 per cent in Q1 2021, and some of the current forecasts for 2021, economic

activity remains a major policy priority. The risks to growth, in my view are more to the downside. The third wave of COVID-19 poses a serious threat to countries with low vaccination coverage including Nigeria.

Third, the aftereffects of previous episodes of the pandemic have continued to linger. In July, the manufacturing and non-manufacturing PMIs were also below 50 points at 46.6 and 44.8 points, respectively. Downside risks to economic growth in the short-term include insecurity and high production costs (energy, transportation and security costs). With these in mind, I would argue that more fiscal and monetary support would be required to increase the pace of domestic economic recovery in the rest of the year. This does not require any changes to the monetary policy parameters. Instead, current actions which are largely administrative should be sustained and possibly deepened. To be clear, these actions have included the innovations around the cash reserves requirement (CRR), the minimum loan-to-deposit ratio (LDR) as well as the development finance interventions.

On account of the extant administrative actions, credit to the private sector has grown phenomenally in both volume and size. Total credit increased to N22.04 trillion at end-June 2021, from N20.48 trillion at end-December 2020. Meanwhile, the outlook for credit to the real sector continues to be good in view of the soundness and stability of the banking system. It is comforting to note that the major financial soundness indicators (FSIs) have continued to be strong. In June, industry capital adequacy ratio (CAR) stood at 15.50 per cent and the non-performing loans (NPLs) ratio decreased to 5.7 per cent from 5.9 per cent in April 2021, indicating some improvement in the quality of risk assets. Likewise, industry liquidity ratio (LR) increased to 41.3 per cent in June 2021 from 38.9 per cent in April 2021. This is above the minimum liquidity ratio of 30 per cent for commercial banks and 20 per cent for merchant banks.

Lastly, the global economic environment continues to harbour some uncertainty with important implications for Nigeria's domestic economic policy. Although the global growth prospects are strong, there are downside risks which cannot be wished away. The third wave of COVID-19 pandemic continues to pose a major threat so long as vaccine access remains poor in developing and some emerging economies. Commodity price instability is also a concern for both producers and consumers. For producers, particularly developing countries, government budgets are at risk; while for big consumers, commodity price instability could stoke inflation expectation and make monetary policy less effective. There is also some instability in financial markets across the globe owing mainly to the new variants of the COVID-19 virus and tightening financial

conditions. These vulnerabilities cast shadow on the global growth outlook and on the promise of recovery in emerging and developing countries especially. In the circumstance, domestic economic policy must assume a cautious tone.

Monetary policy at this time must in the minimum preserve the recovery gains so far. The current strategy of leveraging monetary sterilization does exactly that by ensuring optimal liquidity. In response to that, real interest rates have started to rise. This has worked well with rising crude oil prices and the “Naira for dollar Scheme” to improve foreign exchange flow to the economy. In my view, extant policies are working and should be allowed to fully evolve in terms of impact. On this note, at the July 2021 MPC meeting, I voted to retain all the policy parameters at their previous levels.

In effect, I voted to:

- I. Retain the MPR at 11.5 per cent;
- II. Retain the Asymmetric corridor at +100/-700 basis points around the MPR;
- III. Retain the CRR at 27.5 per cent; and
- IV. Retain the Liquidity Ratio at 30.0 per cent.

2. ADENIKINJU, ADEOLA FESTUS

International Economic Developments

The global economy is recovering fast. Global growth momentum has strengthened on the back of continuous policy support by monetary and fiscal authorities, growing vaccine coverage and relaxations of restrictions on movement of persons and goods within and across international borders. Both the USA and China, two countries critical to global economic growth, are currently experiencing impressive growth performance. Global commodity demand is rising, leading to a rise in commodity prices, including oil prices. Global Purchasing Manager index, PMI stood at 56.6 in June 2021. There is very strong likelihood that current accommodating policies in advanced economies, may not be quickly wind down in the near term, despite the rising inflation in these economies.

However, headwinds to global economy recovery remains, including rising inflation, high debt/GDP ratio, vaccination hesitancy and vaccination inequality between the poor and rich countries. The rapid pace of new COVID-19 variants, including the delta, now present in over 104 countries, is causing some countries to reverse or pause the pace of opening of all sectors of their economies.

Domestic Economic Developments

Presentations by Bank Staff on Real Sector Development shows a mixed state of the domestic economy. While the Nigerian economy expanded by 0.51% in 2021Q1, driven largely by growth in the agriculture and industry sectors, the largest sector of the economy, the services sector, declined. While inflation is decelerating, its level is still unacceptably high, the naira is under significant pressures in the foreign exchange market, and net accretion to foreign reserves is negligible. There are twin deficits in the trade and current accounts, although, both narrowed in June 2021.

Manufacturing PMI improved to 46.6 points but was below the 50 index points, while non-Manufacturing PMI stood at 44.8 points. Overall business outlook of the macroeconomy in the next 3 to 6 months is rising. There is mixed outcome from the oil sector: crude oil prices are above benchmark price; however, crude oil production and exports are below their respective benchmark values.

The naira exchange rate depreciated in both the I&E and the BDC windows. The BDC accounted for 15.6% of foreign exchange outflows, second only to SMIS interventions. External reserves rose from US\$32.78 billion to US\$33.70 billion in June 2021. Bank Staff forecasts show that inflation is expected to moderate in

the 3rd and 4th quarters of 2021, and real GDP to grow at about 2.82% by end of 2021. Headline inflation, food inflation and core inflation decelerated in the month of June 2021. Headline inflation moderated to 17.75% in June 2021, from 17.93% in May 2021.

Presentation by Bank Staff on the Banking System Stability shows that the financial soundness indicators are all trending in the right direction. The banking system remains strong, resilient, and sound. Capital Adequacy Ratio at 15.5%, is slightly above the prudential requirement of 15%; Non-Performing Loans Ratio is 5.7%, in June 2021, down from 5.8% in May 2021. This is driven largely by the implementation of the GSI policy and strengthening of risk management practices. Liquidity Ratio as of June 2021 stood at 41.3%, clearly above the prudential requirement above 30%. Total assets of the banking industry rose to N53.64 trillion in June 2021, up from N47.82 trillion in June 2020. Similarly, total deposits rose from N28.42 trillion to N33.85 trillion year on year. Total credit also rose from N18.90 trillion in June 2020 to N22.04 trillion in June 2021, signaling that the LDR policy of the CBN is working.

The credit expansion to all the sectors of the economy, in particular manufacturing, oil and gas and general commerce is good for the economy. The CBN intervention funds are delivering on their mandate and boosting credits to the MSMEs and households' credits. Personal and households' loans are rising after declining in 2020. Development finance interventions rose by 39.33% to N326.22 billion in May/June from N234.14 billion in Mar/Apr 2021. However, the credit market in the formal banking is tightening as interest rate bands is narrowing. Lending rates increased relative to the saving rate, thus widening the interest rate spread. This is reflective of increased risks and inflationary considerations of the Deposit Money Banks. (DMBs). The liquidity conditions in the economy remain tight due to open market operations, CRR debits and revenue remittances by government agencies.

Fiscal operations remain precarious. In April 2021, deficit fiscal operations stood at N3.2 trillion, and 70.8% of expenditure is in deficit. M₃ grew by 2.02% month on month in June 2021 driven largely by growth in Net Domestic Assets (NDA) and contraction in Net Foreign Assets (NFA). The latter is caused by decrease in foreign asset holdings of domestic banking system. The persistence of insecurity in major food producing areas is increasingly impacting food supply and prices.

My Consideration

Despite the positive real GDP growth and deceleration of inflation, key challenges remain. First, economic recovery remains very weak and fragile. In the services sector, trade recorded negative growth. This sector is critical to

poverty reduction and gender equality. Second, inflation is still unacceptably high, affecting consumers welfare. Third, the state of the fiscal account is very worrisome. There is continuous underperformance of government revenue relative to the budgeted values, affecting capacity of governments at all levels to deliver on government promises and revving up deficits and public debts to worrisome levels.

In my view, one way to address the challenging government revenue, high fiscal deficit and inflation induced through the mechanisms for financing the deficit is for government to develop a framework for winding down the unsustainable petroleum subsidy regime which has negatively affected government fiscal space, accretion to foreign reserves, put pressure on the naira exchange rate and hinder the development of the downstream sector. The subsidy on petrol is no longer sustainable and its retention is difficult to justify under the current economic climate.

The passage of the PIB is likely to be beneficial to the economy, attracts investment to the oil and gas sector and facilitate employment and growth. Hence, the National Assembly must quickly resolve the current impasse and ensure that it is sent to the President for his assent. No matter its shortcomings, the PIB will enhance the efficiency of the sector, streamline regulatory framework, removes the cloud of uncertainty around the fiscal regime, facilitate development of the gas sector, improve on the present state of the oil producing host communities and improve the performance of the national oil company.

The present state of the economy justifies the continuation of the CBN intervention programme. The rise in unemployment rate to 33.3% in 2020Q4 from 27.1% in 2020Q2, especially among the youths and the negative per capita income growth justifies continuous unconventional support for the Government. While it is true that aggregate credit in the economy is expanding, it is important to link the credit expansion to sectors that are most likely to drive employment growth and poverty reduction.

In addition, both the monetary and fiscal authorities must explore ways to diversify and expand sources of foreign exchange to the economy, including through the diaspora bonds, support for non-oil exports sectors, reduce the constraints to exports, reorientate agencies link to the export sector to promote export competitiveness of the Nigerian products.

We must also explore ways to derisk the economy, encourage credit expansion by addressing issues like land titling, and challenges to foreclosures, insecurity are inhibitors to ease of doing business in the economy.

My Vote

The recovery is still very tenuous, and it is not yet time to effect any change in the current monetary policy stance. I cast my vote to maintain all monetary parameters at their extant values:

- i) Keep MPR at 11.5%
- ii) Retain CRR at 27.5%
- iii) Maintain Liquidity ratio at 30%
- iv) Retain asymmetric corridor around the MPR of -700/+100 bases points.

3. AHMAD, AISHAH N.

The July MPC meeting held against the backdrop of continued optimism of a strengthened global recovery. Global trade maintained a faster than expected rebound, gradually attaining pre-pandemic levels. Growth continues to be propelled by sustained implementation of significant monetary and fiscal stimuli, success with vaccine administration in advanced economies, adaptation of economic activity to the 'new normal' and the significant improvement in trade. This positive expectation is reflected in the IMF global growth forecast of 6.0 per cent in 2021 compared with its earlier forecast of 5.5 per cent in its April WEO report (from a contraction of 3.3 per cent in 2020).

Uptick in inflation was observed in some key advanced economies as they approach their long run benchmarks due to base effects and burgeoning demand from resumption of economic activities. Although central banks in some advanced countries have provided forward guidance on possible monetary policy normalization in the medium term, the global policy stance remains generally accommodative with a key focus on supporting strong output growth. **On balance, the global economy is set for a strong rebound in 2021.** Notwithstanding, emergence of new vaccine resistant strains of the corona virus (such as the delta variant), spikes in new cases, deaths and the introduction of new restrictions in several countries portend downside risks to global output growth projections.

Domestic economic developments also signal steady recovery. Real GDP growth of 0.51 per cent was recorded in Q1, 2021 compared with 0.11 per cent in the preceding quarter as a result of improvement in economic activities, driven largely by the Agriculture and Industry sub-sectors which grew by 2.28 and 0.94 per cent, respectively, in Q1, 2021. Output gap though still negative also narrowed in Q1, 2021 relative to Q4, 2020 from -2.3 per cent to -2.0 per cent. Manufacturing PMI and Employment PMIs both rose by 1.6 points and 2.4 points to 45.5 and 45.0, respectively, in June 2021 relative to May 2021 due to increased efficiency in suppliers' delivery time and uptick in economic activities. Whilst the growth outlook for the domestic economy is optimistic, output growth remains fragile, given that Manufacturing PMI and Employment PMIs were both below the 50.0 points benchmark and GDP growth below Nigeria's long-term population growth rate. Continued rigorous implementation of the Economic Sustainability Plan (ESP) and interventions in critical economic sectors is required to drive a more lasting and inclusive growth.

Domestic price developments continued to be positive as headline inflation (year-on-year) moderated for the third consecutive month to 17.75 per cent in

June 2021 from 17.93 per cent in May 2021, driven majorly by deceleration of food and core components of inflation by 0.21 and 0.05 per cent to 21.72 and 13.09 per cent in June 2021, respectively. The Bank's development finance interventions in critical sectors which increased by 39.33 per cent from N234.14 billion in May 2021 to N326.22 billion in July 2021 boosted supply and contributed somewhat to the moderation being witnessed in domestic prices. Although inflation remains on a downward trend, it remains far above the 6-9 per cent inflation threshold of the Bank, thus requiring concerted efforts to address structural factors (security, infrastructure, and logistics arrangements) driving domestic price developments.

External sector developments also mirrored the gradual recovery in economic activities over the first two quarters of 2021. Foreign Portfolio Investments (FPIs) rose by US\$0.21 billion, from US\$0.16 billion in May 2021 to US\$0.37 billion in June 2021 signifying increasing confidence in the Nigerian economy. Diaspora remittances also increased to US\$4.29 billion in Q1, 2021 from US\$ 4.09 billion in Q4, 2020 because of CBN's exchange rate management policy measures. External Reserves increased marginally to US\$33.70 billion as of July 14, 2021, from \$32.78 billion at end-June 2021 partly reflecting positive developments in international crude oil market whilst relative stability was also maintained in the I & E segment of the foreign exchange market between June and July 2021. With the Committee's decision to discontinue weekly FX sales to Bureau de Change operators, more stability and transparency is expected in the FX market. **The Bank is thus advised to sustain the implementation of policy measures aimed at sanitizing the FX market and also vigorously enforce FX regulations to ensure that all legitimate demands for FX are met.**

The banking sector remains resilient with strong fundamentals. The banking industry continued to post strong growth with total assets increasing by N5.82 trillion or 12.17 per cent between June 2020 and June 2021. Financial Soundness Indicators were also robust and significantly met minimum regulatory requirements - Non-Performing Loans (NPLs) ratio declined further to 5.7 per cent in June 2021, 10 bps lower than the rate recorded in the previous month, while capital adequacy and liquidity ratios remained robust at 15.5 and 41.3 per cent, respectively, in June 2021.

Increased credit to growth enhancing sectors of the economy such as agriculture, manufacturing and general commerce helped support output recovery recorded in the domestic economy. Total credit increased by N3.14 trillion from N18.90 trillion to N22.04 trillion between end-June 2020 and end-July 2021 due largely to increase in level of funding and the CBN's Loans to Deposit Ratio (LDR) policy. Whilst noting the satisfactory performance of the financial

system, the Bank must remain vigilant and proactively manage operational, asset quality and other risks to financial system stability, especially with the lingering impact of the COVID-19 pandemic. The Bank is also advised to increasingly consider Environmental, Social and Governance risk factors and ensure their integration into its policy tool kit given recent unprecedented extreme weather conditions and frequent natural disasters being witnessed across the globe.

Policy consideration

Broadly, the global economy has made a sharp rebound while the domestic economy is slowly recovering from the effects of the pandemic amidst some downside risks. Sustained efforts at procuring and administering the COVID-19 vaccines to build herd immunity to the virus, alongside accelerated implementation of CBN's targeted credit interventions to businesses and households are critical to strengthening the macroeconomic gains being recorded.

In consideration of the current and expected macroeconomic developments highlighted above, it is safe to say that ongoing policy actions are yielding expected results – the economy is gradually exiting stagflation with inflation trending downwards whilst output growth trajectory is positive.

I am convinced that maintaining the current monetary policy stance to allow measures being implemented to further permeate the economy is appropriate in the present circumstance.

Thus, I vote to retain;

- **MPR at 11.50 per cent;**
- **Asymmetric corridor of +100/-700 basis points around the MPR**
- **Cash Reserve Ratio (CRR) at 27.5 per cent; and**
- **Liquidity Ratio (LR) at 30.0 per cent.**

4. ALIYU, AHMED

INTERNATIONAL AND DOMESTIC ECONOMIC DEVELOPMENTS

The global economy continues to witness a two-track recovery following observed disparity in COVID-19 vaccine distribution. While the Advanced Economies are beginning to plan towards ending monetary stimulus by year end, indicating a return to normalcy, as vaccine administration become widespread, the Emerging Markets and Developing Economies (EMDEs) require more monetary and fiscal support to strengthen economic recovery. Even for the Advanced Economies, economic growth outlook remains uncertain as new infections arising from deadlier strains of the virus present downside risk to recovery.

The IMF in light of the diverging outcomes has revised upwards the growth forecast for Advanced Economies and lowered growth prospects for EMDEs, even though it retained its overall global growth forecast at 6.0 per cent in 2021 and 4.4 per cent in 2022. Similarly, the World Bank predicts the global economy to grow by 5.6 per cent in 2021.

On global price developments, inflation in many Advanced Economies have continued to rise, amidst narrowing output gap, with the US and the UK already in breach of the 2.0 per cent long-run target. However, the development appears to be transitory as it is expected that inflation would return to its pre-pandemic levels by year end. Inflation was largely driven by base effects due to low price levels in 2020, increases in energy prices and temporary supply-demand disparities. For the EMDEs, inflation, which was the result of the build-up of exchange rate pressure and, in part, high food prices, remain high for most countries, thus constraining central banks from lowering policy rates.

World trade continues to rebound, increasing by 10.0 per cent (y-o-y) and 4.0 per cent (q-o-q). Trade has benefitted from strong monetary and fiscal policy support, including the extensive vaccination in the Advanced Economies. The World Bank projected global trade to grow at 8.3 per cent in 2021 and 6.3 per cent in 2022, reflecting the responsiveness of trade to the re-opening of the global economy, even though its realization will depend largely on the suppression of the spread of the virus by different countries.

Crude oil prices remain positive, reaching a 2-year high of US\$70 per barrel in June 2021. The rise in oil prices, signals improved demand as industrial production picks-up, amidst the stalemate in negotiations amongst OPEC+ countries. Indeed, global industrial production is shown to have surpassed the pre-pandemic level and is moving rapidly upwards.

Global debt levels are still rising, despite growing concerns around debt sustainability including debt service to revenue ratio. With EMDEs government debt levels up by 15 per cent since end-2019 and revenues affected by the Pandemic, debt service remains a burden for many countries in the region. It is noted that constrained economies require unhindered access to international finance, to boost reserves, ease liquidity constraints and develop critical infrastructure necessary to induce growth and create jobs.

On the domestic side, the economy grew by 0.51 per cent in Q1 2021 from 0.11 per cent in Q4 2020. The main drivers of growth included Agriculture and Industry sectors by 2.28 and 0.94 per cent, respectively, while Services contracted by -0.39 per cent. As fragile as it may appear, there are indications that growth would maintain the current upward path through the remaining quarters of 2020, as economic activities expand, given the sustained fiscal and monetary stimulus, and the direct credit intervention schemes in the economy, especially in the real sector. My position is supported by the improvements in the Manufacturing Purchasing Managers Index (PMI) which rose to 46.6 index points in July from 45.5 index points in June 2021, and the Non-Manufacturing PMI which increased to 44.8 index points in July 2021 from 43.0 index points in June 2021, even though they are below the 50.0 index points benchmark.

It is heartening to observe the moderation in inflation since April 2021. Headline inflation slowed to 17.75 per cent in June 2021 from 17.93 per cent in May 2021, driven mainly by the decline in the food component of the inflation basket and improvements in the supply chain as economic activities gradually return to normalcy. Further breakdown shows that food inflation (y-o-y) moderated to 21.83 per cent in June 2021 from 22.28 per cent in May 2021. Core inflation (y-o-y) stood at 13.09 per cent in June 2021 from 13.15 per cent in May 2021. Despite the moderation in year-on-year inflation, headline, food and core inflation grew marginally, month-on-month (m-o-m) to 1.06, 1.11 and 0.81 per cent, respectively, in June 2021 from 1.01, 1.05 and 1.24 per cent, respectively, in May 2021.

The external reserves position stood at US\$33.83 billion on July 22, 2021, a 3.2 per cent increase from the US\$32.78 billion recorded on June 30, 2021, but a year to date decrease of 7.2 per cent from US\$36.46 billion on December 31, 2020. The movement in reserves was driven largely by Secondary Market Intervention Scheme (SMIS) and Bureau-de-Change foreign exchange sales.

There is no gainsaying the fact that the foreign exchange market has been weighed down by severe shocks to crude oil prices, remittances, and capital flows, associated with the ravaging impact of the COVID-19 pandemic. CBN's

policy adjustments to preserve the value of the naira, ensure stability in the foreign exchange market and boost the external reserves, is noteworthy. Whilst the market continues to witness pressure at its various windows, there is no doubt that the various foreign exchange demand and supply management measures, including policies to stimulate higher export proceeds, diversify the export base and increase remittances inflow would in the near to medium term have the desired impact on the economy.

On developments in monetary aggregates, broad money supply (M3) declined to 2.02 per cent in June 2021, compared with 2.99 per cent in May 2021, largely due to the slowdown in the growth rate of Net Domestic Assets (NDA) and Net Foreign Assets (NFA). The marginal decline in NDA mirrors the slowdown in aggregate credit net, which decreased to 4.30 per cent in June 2021 from 4.79 per cent in May 2021.

The All-Share Index (ASI) decreased by 1.28 per cent to 37,947.18 on July 16, 2021, from 38,437.88 on May 31, 2021. Similarly, Market Capitalization (MC) decreased by 1.30 per cent to N19.77 trillion on July 16, 2021, from N20.03 trillion on May 31, 2021. The marginal decline in key equity market indicators appear to be temporary, as there is evidence of growing patronage by domestic investors, which reflect improved investor confidence in macroeconomic management, and the return of economic activities.

I note with satisfaction the resilience of the banking industry as shown by the performance of financial stability indicators. The banking system has remained strong and stable despite the pandemic-induced shocks to the economy. For instance, Non-Performing Loans (NPLs) ratio improved (y-o-y) to 5.70 per cent at end-June 2021 from 6.41 per cent at end-June 2020. Average Capital Adequacy Ratio (CAR) of the industry remained above the 10.0 per cent regulatory minimum. Return on Equities (ROE) increased marginally to 18.6 per cent in June 2021 from 18.4 per cent in May 2021, while Return on Assets (ROA) remained flat over the same period. Total credit increased by N3.14 trillion or 16.61 per cent between end-June 2020 and end-June 2021, due largely to increase in funding, CBN Intervention Funds and the Loan-to-Deposit Ratio (LDR) policy. Despite the increase in total credit, there is need to extend more credit, particularly to the real sector, in order to close the output gap and strengthen the fragile recovery.

CONSIDERATION FOR VOTING

I am pleased with the moderation in inflation rate for two consecutive months but feel concerned that it remains above the Bank's implicit target of 6-9 per cent, likewise is the tepid increase in output growth in two successive quarters. The improvement in these macroeconomic variables is largely because of the

monetary interventions and fiscal stimulus programme to address the negative impact of the Pandemic.

While the marginal improvement in growth and prices is encouraging, the near term outlook for the domestic economy remains cautiously optimistic on account of the threat to global recovery because of the emergence of new strains of the COVID-19 pandemic, particularly the Delta variant and the slower than expected speed in the distribution of vaccines across the globe. Therefore, the economy remains in need of substantial stimulus to address the sluggish fall in inflation, reverse the adverse impact of the Pandemic and faster path of recovery.

Other indicators also portray a gloomy picture, such as: negative output gap, high exchange rates, declining foreign exchange net flows, low accretion to reserves, growing level of public debt, high unemployment, sustained fiscal deficit and slow uptake of vaccines.

While monetary policy in most Advanced Economies remain accommodative for now, indications of impending normalization could hamper capital flows to Emerging Markets and Developing Economies. Similarly, if the current rise in inflation in Advanced Economies persist, their central banks may be compelled to tighten monetary policy. This could lead to higher capital outflows from EMDEs, including Nigeria, into the Advanced Economies, with adverse consequences for external sector performance.

Although, crude oil prices have improved, including Nigeria's Bonny Light variant, there is urgent need to strengthen current strategies targeted at stemming down the economy's reliance on crude oil receipts as the adoption of other greener and cheaper sources of energy gain momentum across the globe. I, therefore, welcome the increased contribution of the non-oil sector to Government revenue in recent times which reflect the gradual diversification of the economy and call for more policy support for the non-oil sector. In view of the constrained fiscal space, I underscore the need to accelerate the ongoing review and automation of the entire tax system, as well as align it with international laws and standards to enhance its transparency and efficiency.

In the light of continued low accretion to reserves and threat of normalization in the Advanced Economies, I note that tightening the stance of policy at this meeting, could attract foreign portfolio investments and dampen pressure in the foreign exchange market. However, this stance could increase the cost of credit, reduce investment, reduce aggregate demand and reverse the moderate economic growth.

Conversely, easing the stance of policy could lower the cost of credit and improve financial resource availability in the real sector. But this may stimulate price development through increased money supply which may portend upside risk to inflation.

Price stability conducive to growth remains the key objective of the Central Bank. I would like to reiterate my position in the last few meetings of the Monetary Policy Committee, that there is need to sustain interventions in critical sectors of the economy to improve the current growth momentum and address the pandemic's lingering effects, while safeguarding macroeconomic stability.

In my consideration, monetary and fiscal stimulus will continue to stimulate aggregate demand, boost the supply side economy, which in turn will have a calming effect on prices. Also, various policy measures to improve diaspora remittances, which is already having the desired impact on foreign exchange inflows, should be sustained.

In consideration of the foregoing, I vote to retain all policy parameters as follows:

- MPR at 11.5 per cent
- The Asymmetric corridor of +100/-700 basis points around the MPR
- Liquidity ratio at 30.0 per cent
- CRR at 27.5 per cent

5. ASOGWA, ROBERT CHIKWENDU

Background:

The resurgence of the Covid-19 pandemic virus especially the Delta variant in many countries is raising new uncertainties amidst growing health concerns, casting doubts on earlier economic projections for 2021. Since the MPC's meeting of May 2021, the pace of recovery appears to be moderating in some economies where fresh restrictions are now dampening investors' confidence. While these recent developments may have altered the anticipated path of an accelerated growth rebound in 2021, the steady improvements in vaccination rates especially in advanced countries still provides some sense of optimism with ongoing recovery efforts and a strong belief in the ability of national response measures to sustain the tempo. On the domestic front specifically, the spread of the recent wave of the virus remains limited and leading indicators of the economy point to a relatively good GDP recovery in the first half of 2021. There are however concerns that with these new global uncertainties over the path of the Pandemic, the domestic economic outlook may appear more fragile. Looking at recent monetary policy considerations across many countries, the focus is still clearly on the sustenance of the growth tempo on a durable basis while still containing the inflationary risks. At this July 2021 MPC meeting therefore, an assessment of the implications of the developments in the global economy especially recent disruptions in the recovery path will therefore be key to policy decisions while also paying close attention to domestic financial system stability.

Assessment of the Global Economy:

The divergence in the pace of growth recovery and the associated inflationary outlook amongst advanced and emerging market economies may have weighed in on recent monetary policy choices across central banks. On growth, several countries showed some weakness in the first quarter of 2021, but some others had a remarkable recovery rate. CBN staff report show that growth was particularly strong in the US in the first quarter with an expansion of 6.4 percent compared with 4.3 percent in the previous quarter and the feeling is that the substantial fiscal stimulus implemented in the first quarter of 2021 as well as the advanced reopening of the country's economy may have played significant roles. Growth momentum however slowed in many other advanced economies in the first quarter with the Euro area economy contracting by -0.6 percent and the UK GDP also contracting by -1.6 percent. There was a similar contraction in Japan's GDP growth by -1.0 percent in the first quarter of 2021 compared with a 2.8 percent growth in the fourth quarter of 2020. Several emerging markets also experienced a first quarter 2021 slump. CBN staff report indicate that output

growth in China in the first quarter of 2021 declined to 0.6 percent compared with 3.2 percent in the previous quarter, while that of Brazil also lowered to 1.2 percent compared with 3.2 percent in the fourth quarter of 2020. After this 2021 slow start, global recovery rate however seems to have been strengthening as from the second quarter supported by sizeable fiscal and monetary measures. In some economies, the COVID-19 resurgences may still be disrupting the rebound. Preliminary UK GDP estimates for 2021 quarter two, show a growth rate of around 5 percent and the recovery is driven by the surge in consumer spending as restrictions were eased. Growth is also expected to rebound in China in the second quarter as household spending and manufacturing production accelerate modestly, but there are strong predictions that the high daily case numbers of the new variants of COVID-19 since March will likely restrain second quarter growth in other emerging and developing countries. Overall, global GDP is still projected to surge between 6.0 and 6.5 percent in 2021.

Some pro-inflationary risks are emerging at the global level with a hardening of commodity prices, particularly crude oil, reflecting both global supply shortage and rising demand. Interestingly, even with the increases in the price of crude oil, the pass-through to consumer prices may have been limited as CBN staff report show that headline inflation in recent months increased only in a few countries while it declined in most other advanced and emerging market economies. While month-on-month inflation in the US increased marginally to 0.9 percent in June 2021 compared with 0.6 percent in the previous month, it declined in the UK to 0.5 percent from 0.6 percent in May 2021. Similar declines in June 2021 headline inflation rates are reported in India, China, South Africa and Brazil.

On the basis of these developments, central banks in most advanced and emerging market economies have maintained accommodative monetary policy stance even with the surge in inflationary expectations. Only few central banks adjusted rates upwards in response to the increase in underlying inflationary pressures. The Bank of England at its recent meeting maintained bank rates at the present level of 0.1 percent and continued its massive bond purchase programmes. The US Federal Reserve also continued its supportive and extraordinary accommodative monetary policy programme, keeping rates constant, but enlarging its bond buying programme, while in the EU, the 20 billion pounds' monthly asset purchase programme has continued to reinforce the accommodative stance of its policy rates. The few countries that have hiked policy rates in recent times such as Russia, Ukraine, Brazil have based their

decisions on the high inflation expectations which perhaps may have shifted their balance of risks towards a pro-inflationary outlook.

Domestic Macroeconomic Conditions:

On the domestic front, economic activity further picked up since the second quarter of 2021 even much stronger than anticipated. Official real GDP figures are not yet published, but preliminary CBN staff estimates suggest that real GDP may have increased by 1.49 percent in the second quarter, up from 0.51 percent in the first quarter of 2021. The outcome reflects a better sectoral growth performance especially for the manufacturing sector, reinforced by an improving terms of trade position. The Manufacturing Purchasing Managers' Index (PMI) moved from 43.9 index points in May 2021 to 45.5 index points in June, but the non-Manufacturing PMI slightly declined from 44.1 index points in May to 43.0 index points in June 2021. Commodity prices have remained high, especially for oil, thus sustaining revenue gains for government and some high frequency indicators such as import of capital goods are now posting strong recovery rates since May 2021. Overall, the domestic growth outlook is positive at least in the medium term. With improving oil prices and somewhat better investment conditions backed up by the supportive fiscal and monetary sector stimulus, a return to pre-pandemic levels is not unlikely.

Headline inflation (year-on-year) moderated further in June 2021 to 17.75 percent from 17.93 percent in May, driven by softening of food and core inflation, but on a month-on-month basis, there was a marginal rise in headline inflation from 1.01 percent in May to 1.06 percent in June 2021. This month-on-month increase was caused by marginal uptick in the farm produce inflation eventhough there was a reduction in that of processed food. Going forward, with the incessant farmer/herder clashes on a decline and the pickup in farming activities, buffered by rains and the support interventions, it is expected that farm produce price pressures will be controlled.

Gross external reserves have remained strong eventhough there was a decline from 34.18 billion dollars in May to 32.78 billion dollars in June 2021, but still continue to provide adequate cover of up to 6.13 months of import of good and services and a buffer against short term shocks in the foreign exchange market. Since the last MPC meeting, the naira exchange rate at the I&E window has somewhat been stable, only depreciating marginally by 0.02 percent from N410.00/US\$ at end-May 2021 to N410.10/US\$ at end-June 2021. This is mainly attributable to rising dollar demand from both genuine commodity importers and illegal hoarders using the BDC and parallel market windows, thus often outweighing the supply of dollars. We however expect the naira to remain under

pressure in the medium term as genuine merchandise importers ramp up their foreign currency demand as more trading partners globally reopen their economies for business. This may also not affect the domestic currency stability given the increasing level of foreign reserves and the likely ban of BDC's from unjustified dollar demand.

System liquidity remained ample even though aggregate domestic credit grew by only 4.30 percent in June 2021 compared with 4.79 percent in May 2021. While credit to central government declined during this period, the credit to the private sector grew. This progress is largely attributed to the sustenance of the CBN's credit enhancing policies. The banking sector itself remains stable and resilient, with strong liquidity and capital adequacy ratios. The ratio of gross non-performing loans (NPLs) to total loans further declined from 5.8 percent in May to 5.7 percent in June 2021. Interestingly, repayments and recoveries were noted in key sectors including, oil and gas, manufacturing, construction and agriculture.

The latest published labour market data from the National Bureau of Statistics show that unemployment rate increased from 23.1 percent in 2020 quarter two to 33.3 percent in 2020 quarter four, while underemployment rate reduced to 22.8 percent in 2020 quarter four compared with 28.6 percent in quarter two of 2020. However, employment intentions of industries indicate that firms may hire more workers in the coming quarters as economic activities pick up generally.

The domestic fiscal sector however remains weak with the persisting wobbling revenue performance which continues to pose risk for growth and inflation. CBN staff data show that the Federal government revenue collected between January and April 2021 was 39 percent below the target amount for that period. As such, in April 2021, the Federal fiscal operations had a deficit close to 63.0 percent, which has kept the public debt stock ballooning. Nigeria is however not alone in the debt pile-up as many other governments and corporations around the world amassed considerable debt as they weathered last year's global recession, but the peculiarities in Nigeria require some fiscal and structural reforms to help forestall any impending debt-related vulnerabilities.

Decision:

In consideration of the current and evolving domestic and global macroeconomic situation, it is clear that the ongoing accommodative monetary stance of the Central Bank of Nigeria is still appropriate as it is supportive of economic recovery with no visible threats yet to domestic inflation. It is however important for MPC to closely monitor the economic environment which may remain uncertain for the foreseeable future while new policy

decisions including further monetary stimulus to support higher growth will continue to be data dependent.

I will thus vote to:

- Retain the MPR at 11.5 %
- Retain the CRR at 27.5%
- Retain the Asymmetric Corridor of +100/-700 basis points around the MPR
- Retain the Liquidity Ratio at 30.0%

6. OBADAN, MIKE IDIAHI

INTRODUCTION

The 280th meeting of the Monetary Policy Committee was held at a time when optimism about global economic recovery from the debilitating impact of COVID-19 had gained momentum in the hope that full recovery could happen in no distant future. The optimism is observable not only in the area of growth but also in trade, financial markets, commodity markets, among others, although the prices of precious metals like gold, silver and copper gradually moved downwards. The notable achievements in the production of vaccines and administration of vaccines, especially in the developed economies has played a significant role in the optimistic expectations. However, downside risks are a possibility.

HIGHLIGHTS OF GLOBAL ECONOMIC DEVELOPMENTS

Growth, Trade, Commodity Markets and Financial Markets

Although there are perceivable downside risks associated with the Pandemic, global growth is forecast to remain on track for a full recovery in 2021 such that the IMF, in its World Economic Outlook, has revised global growth forecast for 2021 from 5.5 per cent to 6.0 per cent. The increasing positive global growth outlook is premised on the gradual but steady easing of restrictions across the globe and steady return of economic agents to business activities coupled with the deployment of vaccines across the globe which is evidently reducing the mortality rate associated with the COVID-19 pandemic. The challenge to full recovery though is that while vaccine administration is apparently on course in the advanced countries, it is not so in the Emerging Market and Developing Economies (EMDEs), especially Sub-Saharan Africa where in the most populous country, Nigeria, only about 0.7 percent of the population have had access to vaccines. Vaccination rollout has been very uneven in favour of the advanced countries. That vaccination remains slow in the EMDEs, reflecting both the demand and supply side problems bedevilling them, is a threat to global recovery which the advanced countries must seek ways to redress. Also posing a notable threat to full global economic recovery is the spread of the more contagious strains of the virus, especially Brazil's Gamma variant and India's Delta variant. It is even in the self-interest of the advanced countries to ensure rapid and globally equitable distribution of vaccines.

With the deployment of vaccines to combat the pandemic along with positive sentiment regarding global growth, confidence is gradually being restored in the financial markets. Global trade is rebounding faster than anticipated in 2021

after falling sharply during the first wave of the pandemic in the second half of 2020. The recovery in global trade was aided by strong monetary and fiscal policy support from governments as well as the effective vaccination coverage against COVID-19. The World Bank has projected global trade to grow at 8.3 per cent in 2021 and 6.3 per cent in 2022, reflecting the responsiveness of trade to the reopening of economic activities.

There is a broad uptick in commodity prices, especially crude oil prices, which signposts the likelihood of rising global inflation in the short to medium term and the earlier than expected commencement of monetary policy normalization. Indeed, prices have inched up in such a way that inflation is gradually increasing towards the long-run objectives of the central banks of many developed countries. Unlike earlier forecasts, crude oil prices have recovered in such a remarkable way that they reached a two-year high of US\$75.09 on 25th June 2021. However, the price of Bonny light declined moderately to US\$74.16 per barrel on 30th June 2021. This compares with US\$50.43 per barrel on 4th January 2021 and the trough of US\$14.67 per barrel recorded on 27th April 2020. In the oil futures market, forecasts indicate that the price of crude oil is expected to lie between US\$76.30 per barrel in August 2021 and US\$72.17 per barrel by December 2021.

While the Pandemic intensified, occasioning massive fiscal and monetary supports in the form of stimulus packages, upticks in global debt levels elicited deep concerns. However, global debt levels declined in Q1 2021, for the first time in nearly ten quarters, driven by a fall in debt levels in the developed economies, while indebtedness across developing economies hit a fresh record high. Total global debt declined by US\$1.7 trillion to US\$289 trillion with financials accounting for nearly half of that decline, while government indebtedness continued to increase.

A CBN survey of 14 countries' central banks between May and June 2021 showed that the exchange rate of most countries depreciated against the US dollar, reflecting policy adjustments to ease pressure on economies and create the required room for macroeconomic recovery.

Continued Fiscal and Monetary Response to the Challenges posed by COVID-19

Notwithstanding the progress achieved in combating COVID-19 and significant movement on the path of economic recovery, governments have continued to provide fiscal and monetary policy support to their economies even though the

burden of debt is increasing. Monetary and fiscal policy continues to support the recovery and create jobs required to achieve full recovery. Examples:

- Quantitative easing remains the policy instrument of choice amongst major advanced economy central banks and in some cases, direct liquidity injections have been used to jumpstart growth. With inflation rising appreciably, early normalization of monetary policy is now envisaged amongst policy makers.
- The Federal Reserve Bank maintained its asset purchase programme of treasury securities and agency mortgage-backed securities as a means of injecting liquidity to the economy to support economic recovery while maintaining guidance of the likelihood of tapering its bond-buying programme in the fourth quarter of 2021. US Federal Reserve Bank retained its overnight rate at 0.00-0.25 per cent.
- The European Central Bank (ECB) maintained its liquidity support programmes to drive recovery; retained its benchmark policy rate at 0.0 per cent; and held all other monetary policy parameters constant, including its overnight deposit rate of -0.5 per cent and its monthly asset purchase programme of 20 billion euros.
- The Bank of England's Monetary Policy Committee voted unanimously to maintain monetary accommodation, retaining its policy rate at 0.10 per cent while also maintaining its bond purchase programme.
- China, as the only major economy to have overcome the downside risks of the COVID-19 shock, is gradually progressing towards full recovery. Nevertheless, the Peoples Bank of China, at its June 2021 meeting, maintained its policy rate at 3.85 per cent to support economic recovery.
- In India, the Reserve Bank of India, at its June 2021 meeting, retained its policy rate at 4.0 per cent while the government maintained its spending plans to support the recovery of the economy.
- The survey of 14 central banks by the CBN revealed a strong trend towards continued monetary accommodation by both the advanced and emerging market economy central banks.

However, with the progressive recovery of economic activities, the pace of price development is increasing. Consequently, there are underlying signals from some major central banks indicating that the normalization of monetary policy may soon be a reality.

DOMESTIC ECONOMIC DEVELOPMENTS

In Nigeria, like the global economic prospects, optimism is gradually gaining momentum about the domestic economy against the backdrop of the

increasing recovery of the global economy, significant increases in crude oil prices in the oil market and continued monetary and fiscal stimulus by the CBN and Government, respectively. The economy has steadily shown signs of recovery though weakly. The National Bureau of Statistics (NBS) data, showed that the GDP increased by 0.51 per cent in Q1, 2021, compared to 0.11 and -3.62 per cent in Q4 and Q3, 2020, respectively. However, growth remains low and fragile and below pre-COVID-19 levels. Nevertheless, gradual economic recovery is expected to continue through 2021 amid the easing of lockdowns in the domestic and international environment, rebound of economic activities, recovery in oil prices, effective COVID-19 immunization, and a turnaround in manufacturing activity in 2021 and continued implementation of stimulus packages. CBN Staff estimates for real GDP in the second, third and fourth quarters of 2021 are 1.49, 2.18 and 2.62 per cent, respectively.

All the three measures of inflation in the country - headline, food inflation and core inflation - showed deceleration in June 2021. The year-on-year headline inflation moderated to 17.75 per cent in June 2021, from 17.93 per cent in the previous month, but remained significantly above the ceiling of the Central Bank of Nigeria's single-digit inflation range of 6.0 - 9.0 per cent and the Bank's policy rate of 11.5 per cent. Food inflation trended downwards to 21.83 per cent in June 2021 from 22.28 per cent in May 2021. Core inflation declined to 13.09 per cent in June 2021 from 13.15 per cent in May 2021. And CBN Staff forecast shows that headline inflation will drop to 17.4, 16.08 and 13.98 per cent in July, September and December, respectively. Nevertheless, inflation remains considerably high and worrisome making it imperative for policy to address the key propelling factors: low productivity in the economy, lingering negative impact of insecurity in food producing communities, multiple taxation of interstate food transportation by federal, state and local governments, bribery settlement of bandits/herders by farmers to buy peace on the farms, settlement of security officials in the course of transporting produce, depreciation of the naira, upward adjustment of energy prices, obnoxious role of market unions/associations and non-targeted monetary expansion.

There is continued good news from the oil market for the country. As was shown above, crude oil prices have increased significantly for some time now and remain high. The futures market is also optimistic. With crude oil prices remaining significantly high, it behoves the Government to ensure that the foreign exchange and naira revenue earning opportunities are not missed by resolving possible oil production challenges and ensuring efficient management of oil proceeds through more transparency on the part of the NNPC. Revenues earned should not be squandered in a pro-cyclical manner. Rather, the

Government should begin to build fiscal buffers through saving of part of the revenue beyond the budget benchmark while another part is used to reduce fiscal deficits. Saving of oil windfalls for the rainy day must now be a priority so as to effectively deal with future shocks.

The Federal Government's fiscal operations are still hobbled by poor revenue, limited fiscal space and burgeoning expenditure such that as at April 2021, a deficit of N3,177.5 billion was recorded which was 78.2 per cent above the budget benchmark. In light of the fiscal challenges, the public debt stock has continued to rise while debt service absorbs a significant proportion of revenue. Nigeria's public debt stock as at Q1 2021 stood at N33.1 trillion (US\$87.239 billion). External debt represents 37.67 per cent (N12.470 trillion), while domestic debt represents 62.33 per cent (N20.636 trillion). The debt is not sustainable in terms of revenue.

Besides, economic performance in other areas is still worrisome. Limited accretion to external reserves is causing serious pressure in the foreign exchange market and on the exchange rate. So far, for various reasons, the significantly increased oil prices have not impacted much on external reserves and exchange rate stability. As at June 2021 the nation's external reserves could cover 6.13 months of import of goods and services, and 8.23 months of import for goods only. The balance of payments position remains weak. The overall balance of payments deficit as a percentage of GDP was -1.31 per cent in Q1 2021.

OPINION

If the forecast of significant improvement in growth is to be realised, monetary policy tightening cannot be an option at this time. Continued monetary and fiscal policy support to the recovery efforts is indispensable. For monetary policy support, the development finance interventions would need to continue, targeting output expansion with a view to lowering inflation from the supply side. Any non-output targeted monetary expansion needs to be minimised so as not to neutralise the impact of the development finance interventions.

As at now, the expected impact of the development finance interventions on inflation is being undermined by insecurity in the food producing communities in the country. Thus, a major resolution of the food inflation challenge is an effective handle on insecurity. The Government should double its efforts in this regard.

It is also crucial to implement other inflation control measures:

- Ensure exchange rate stability
- Avoid sharp increases in energy prices
- Improve business environment for farmers, manufacturers, MSMEs by addressing legacy infrastructure problems, especially transport and electricity, and eliminating multiple taxation of products (farm produce) and transports conveying them
- Make InfraCo functional to take a big burden off Government in the area of infrastructure development
- Closely monitor the activities of all economic agents dealing in the foreign exchange market to prevent foreign exchange racketeering and the associated inflationary implications
- Check the monopolistic practices of market unions/associations so as to minimise their arbitrary jacking up of goods prices and exploitation of consumers. Most of the observed sharp increases in prices in recent times are not related to the cost of production but to arbitrariness and impunity. Market unions/associations should be considered for prohibition, especially those involved in marketing of agricultural food items.

Although the rate of inflation is still high, it is on a deceleration path. The situation neither warrants an easy monetary policy nor further tightening of policy. Extant policy measures seem to be working. It is necessary to continue with them.

Therefore, I vote to hold the parameters at their extant levels as follows:

MPR	-	11.5%
CRR	-	27.5%
Liquidity Ratio	-	30%
Asymmetric Corridor	-	+100/-700 basis points around the MPR

7. OBIORA, KINGSLEY ISITUA

In the face of a weak economic recovery and a slowly decelerating inflation, I voted to: retain the MPR at 11.5 per cent, the CRR at 27.5 per cent, the LR at 30 per cent and the asymmetric corridor of +100/-700 basis points around the MPR. I believe this stance would continue to strengthen the growth recovery and complement the Bank's policy measures, whilst also rein in inflationary pressures, driven mainly by supply-side factors.

The world is still in the grips of the Coronavirus Disease (COVID-19) pandemic.

Whilst the incidence of cases of the COVID-19 pandemic is receding in some locations, the emergence of a new variant (delta), which is more deadly and faster in transmission than the earlier variants, is causing great anxiety across the world, especially in Southeast Asia, Latin America, and Africa. These regions, unfortunately, are already in the third wave of the pandemic but with limited supplies of vaccines. As a result, globally, the number of cases and deaths continue to rise from 124 million and 2.5 million, respectively, during the May MPC meeting to 195 million and 4 million in July 2021. The number of administered vaccines doses stood at 3.9 billion as of 27th July, 2021. From this amount, only 1.1 per cent of the people in Low-income countries have received at least one dose of the vaccine, which further indicates the widening gap in vaccination between developed and developing countries. Therefore, there is an urgent need to address this inequality. According to the World Health Organisation (WHO), "equitable access to safe and effective vaccines is critical to ending the COVID-19 pandemic."

Despite these worrying trends, a strong global recovery is expected in 2021. The Global Purchasing Manager's Index continues to strengthen, trending above 50 points benchmarks with 55.5 per cent in June down from 56.0 in May 2021. The index is driven by increased consumer spending, production, new orders, and employment. Consequently, the recent projections by the IMF, the World Bank, and OECD indicate that the global economy will grow by 6.0, 5.6, and 5.8 per cent, respectively, in 2021. The projected growth is attributed to the vaccination programmes, monetary policy accommodation and fiscal policy support in various advanced, emerging, and low-income countries. These projections also show a growth divergence across regions and countries. Whilst the IMF forecast the United States, the United Kingdom, and China to grow strongly by 6.4, 5.3, and 8.6 per cent, South Africa, Nigeria, and Angola are projected to grow by

3.1, 2.5 and 0.4 per cent, respectively. This implies that though advanced economies with better access to vaccines are recovering strongly, many emerging and developing economies with limited access to vaccines and weak policy support continue to lag. Overall, these projections are subject to uncertainties, especially those emanating from the dynamics of the COVID-19 pandemic and the underlying economic structure of each region and country.

The domestic economy is sustaining its growth recovery, driven by policy support. Official data from the National Bureau of Statistics (NBS) shows that the economy continues to recover from 0.11 per cent in Q4 2020 to 0.55 per cent in Q1 2021. The recovery is driven by the expansive monetary policy stance of the Central Bank of Nigeria (CBN) and the fiscal policy support by the Federal Government. The oil sector improved from a contraction of -19.75 per cent (year-on-year) in Q4 2020 to -2.21 per cent in Q1 2021. The improved performance was driven by rising oil prices bolstered by increased global demand and supply restraints imposed by the OPEC+ members. Moreover, since the last MPC, average oil prices have continued to rise from US\$68.5 per barrel to US\$73.15 per barrel, which will further support domestic economic recovery. The non-oil sector grew by 0.79 per cent in Q1 2021, which was 0.89 per cent points lower, compared with 1.69 per cent in Q4 2020. Growth in the non-oil sector was driven mainly by the Information and Communication (Telecommunication), Agriculture, Food, Beverage and Tobacco and Human Health and Social Services sector. Headline inflation (year-on-year) moderated further to 17.75 per cent in June from 17.93 per cent in May 2021, attributed to the food component, which decreased to 21.83 per cent in June from 22.28 per cent in May 2021. Also, core inflation decreased to 13.09 per cent in June from 13.15 per cent in May 2021. Furthermore, the current account balance has significantly improved from a deficit of US\$5,264.53 billion (4.5 per cent of GDP) in Q4 2020 to a lower deficit of US\$1,750.64 billion (1.8 per cent of GDP) in Q1 2021, reflecting a decrease in the imports of goods and services and net out payment of investment income.

The Banking system remains stable and resilient in the face of a weak economic recovery. The Capital Adequacy Ratio (CAR) and the Liquidity Ratio(LR) both stood at 15.5 and 41.3 per cent in June 2021, above their prudential benchmarks of 15.0 and 30.0 per cent, respectively. Consequently, the gross banking sector credit increased by N1.55 trillion from N22.68 trillion at the end of December 2020 to N24.23 trillion at the end of March 2021. The increased credit was recorded in manufacturing, consumer credit, general commerce, information and communication and agriculture. This improved performance was driven by the policy of loan-to-deposit ratio (LDR), the extension of regulatory forbearance

and other macroprudential measures. Although the Non-Performing Loans (NPLs) was above the regulatory benchmark of 5.0 per cent, it improved from 6.41 per cent in June 2020 to 5.70 per cent in June 2021, reflecting strengthening risk management practices, Global Standing Instruction (GSI) policy, and case-by-case review of regulatory forbearance. However, average monthly weighted average Inter-bank Call and Open Buy Back (OBB) rates rose to 16.87 and 16.39 per cent in June 2021 from 15.95 and 16.18 per cent in May 2021, showing tight banking system liquidity conditions. The reduction in the liquidity conditions is part of the effort to ensure a stable banking system and rein in the monetary side of inflation pressures. Overall, the banking system continues to increase the flow of credit to the real economy while preserving the banking sector resilience.

Although the global and domestic prospects have brightened, short to medium term challenges persist. The global concerns for COVID-19 infections remain high, especially given the uneven progress in vaccines rollout, reimposition of lockdown measures in several locations as third-wave rages as well as the complex evolution of the virus. The virus continues to mutate into more lethal variants with severe health and socio-economic consequences across the world. Therefore, the top priority is to save lives and livelihoods, and return the global economy to the pre-pandemic levels, which can be achieved through timely and equal access to COVID-19 vaccines.

Domestically, the country is already in the third wave of the COVID-19 pandemic as delta variant continue to take its hold. The infections have resurged, with 175,000 confirmed cases and 2000 deaths. Also, growth remains fragile as medium-term prospects are severely constrained by the slow pace of vaccination programmes, limited fiscal space, lingering insecurity, and long-standing infrastructural challenges. Furthermore, official data from the NBS shows that some sectors are yet to fully recover from the adverse effect of the first and second waves of the COVID-19 pandemic, especially oil refining, Air transport, accommodation and food services, and trade. Consequently, in June 2021, both manufacturing and non-manufacturing Purchasing Manager's Indexes (PMIs) continued to remain below the 50 index points at 46.6 and 44.8 index points, respectively. Although the headline inflation is decelerating, it is still above the implicit target of 6-9 per cent. The double-digit inflation is driven by food component as well as high electricity tariffs, and price of Premium Motor Spirit (PMS), and exchange rate adjustments. However, with the commencement of harvest season and various interventions by the CBN to boost food supply, I believe inflation rate will decelerate fast in the near term. Also, rising oil prices will help improve the Federal Government revenues and

narrow the fiscal and current account deficits as well as ensure exchange rate stability. Furthermore, the CBN in conjunction with the Federal Government continues to support the critical sectors of the economy through various targeted interventions in households, SMEs, health, agricultural, manufacturing, and ICT. I believe these interventions have largely contributed to the exit of the country out of recession in Q4 2020 and alleviate the severe economic hardship faced by many Nigerians. However, given the strong economic headwinds and the need to avoid a prolonged weak recovery with its attendant socio-economic consequences on lives and livelihoods, more action is needed to put the economy on a robust recovery path.

Considering the fragile recovery and a slowly moderating inflation, and the policy actions already taken by the Bank, I believe the best course of action is to leave our policy parameters unchanged. On that basis, I voted to:

- Retain the Monetary Policy Rate (MPR) at 11.5 per cent;
- Retain the Cash Reserve Requirement (CRR) at 27.5 per cent;
- Retain the Liquidity Ratio (LR) at 30.0 per cent; and
- Retain the asymmetric corridor to +100/-700 basis points around the MPR.

8. SHONUBI, FOLASHODUN A.

This meeting held at a time when central banks worldwide have somewhat unanimously embraced unconventional measures as an alternative, considering the obvious limitations of conventional monetary tools. The global economy is overwhelmed by so much uncertainty, in the midst of frantic efforts by world leaders and institutions to sustain and also enhance the slow rebound from the negative impacts of the pandemic. The domestic economy remained challenged by high general prices, weak growth, high unemployment and low government revenue, despite high oil prices and an appreciable stimulus regime.

Brief Review of Global and Domestic Economic Developments

Despite the downside risks to growth, due to fast mutating COVID-19 virus and a wide gap in access to vaccination, gradual reopening of economies supported by sustained monetary and fiscal stimulus has enhanced the prospects of rebound in global growth. On account of the improved outlook, the International Monetary Fund (IMF) projected global growth at 6.0 per cent in 2021. Growth in the advanced and, emerging market and developing economies (EMDEs) were estimated at 5.1 and 6.7 per cent, respectively. Inflation in advanced economies generally trended above target levels, while exchange rate pressure and weak supply chain continued to put pressure on prices in the EMDEs.

Against the backdrop of dismal performance of the domestic oil sector, two consecutive quarters of output expansion in the fourth quarter of 2020 and first quarter of 2021 marked a change in the structure of domestic economic growth. Though the composite manufacturing and non-manufacturing Purchasing Managers' Indices remained at the sub-optimal levels, below the 50.0 index points, both rose in July 2021, relative to the levels in the preceding month. Domestic headline inflation decelerated further to 17.75 per cent in June 2021, for the third consecutive month, on account of decline in both food and core inflation to 21.72 and 13.09 per cent, respectively. On month-on-month basis, however, headline and food inflation rose, while core inflation declined.

The banking sector remained resilient and continues to be the major channel for supporting the domestic economy. Industry total asset and credit rose further at end-June 2021, just as industry liquidity and capital adequacy ratios stayed above the regulatory minimum. Notably, the non-performing loan ratio improved marginally to 5.7 per cent, though it was slightly above the prudential

maximum of 5.0 per cent. Monetary aggregates developments and money market rates reflected the impact of the Bank's liquidity management measures.

Despite the high global crude oil price, the fiscal authorities continue to grapple with low revenue, even as the Government is pressured to increase expenditure to alleviate the impact of economic hardship and stimulate aggregate demand. Total revenue and expenditure remained generally below the budget benchmark, leading to a steady rise in Government's debt portfolio. In the external sector, foreign portfolio investment increased, on account of somewhat renewed confidence in the business and investment environment, just as external reserves rose marginally as at July 22, 2021, relative to the level at end-June 2021.

Considerations and Decision

Though gap in access to vaccination constitutes a major risk to growth, widespread lifting of restrictions and lockdown, higher than expected rebound in global trade and increased global financial market vibrancy suggests a bright prospect for global growth. While these enhanced outlook and high crude oil price provide leverage opportunity for the domestic economy, sustained increase in general prices in the advanced economies portends risk of quicker than expected return to global monetary policy normalization.

Clearly, the domestic economic environment is still challenged on multiple fronts. Inflation has delightfully trended downward for the second consecutive month after nineteen months of consistent increase, but remained at a significantly high level, with implications for investment and purchasing power. Though growth is largely driven by the non-oil sector, it remains fragile at below pre-pandemic levels. The situation calls for a redoubling of effort by the fiscal and monetary authorities to intensify implementation of various stimulus programmes.

So far, we have witnessed tremendous positive outcomes from development finance interventions by the Bank. Successive rise in the composite PMI and improvement in the indices of new orders and employment components of the manufacturing PMI, together with decline in the index of the stock of the finished goods component, underscores gradual recovery and likelihood of further expansion in the coming months. This is especially delightful, given the current limitations of conventional tools. The signals I must say, is encouraging and intervention measures obviously remain the most potent tool for now.

While I recognise that the Federal Government has made some progress in the vaccination programme, and also facilitating further reopening and stimulating the economy, especially in an era of very low revenue. There is room for more to be done to enhance the slow recovery. Government must aggressively explore every collaborative opportunity with the international community to access more doses of COVID-19 vaccine, while also stepping up the campaign to encourage the populace to come forward to get fully vaccinated towards achieving herd immunity.

Addressing the widespread insecurity challenges is a task that requires Government to step-up efforts in order to reverse the negative effect on the overall business and investment environment. I also reckon that the fiscal authority will continue to explore private-public partnership options to aggressively shore-up investment in public infrastructure.

As mentioned in my previous statement, I encourage the present efforts by the Bank to intensify implementation and widen the scope of the interventions. This I believe will further strengthen the weak purchasing power, promote investment and expand the productive base. I urge strengthening of the current collaboration between the fiscal and monetary authorities in all areas, and in particular to expand the capacity for the uptake of excess food harvest towards building-up reserves to serve as stabilizer for food prices.

Knowing fully well that recent combined effort of the monetary and fiscal authorities have sustained the slow domestic economic recovery and caused the recent reversal in inflation, I agree with other members of the Committee not to alter a working strategy. Clearly, all that is needed at this time is to do more of what we are presently doing and which has worked so far, to enhance productivity, growth and eventually sustain the reversal in inflationary pressure. We should rather intensify and widen the scope of ongoing interventions to enhance purchasing power and facilitate further expansion of economic activities, while the fiscal authority strive to ingeniously address insecurity and infrastructure challenges.

I therefore vote to Retain:

- MPR at 11.50 per cent;
- Asymmetric corridor of +100/-700 basis points around the MPR
- Cash Reserve Ratio (CRR) at 27.5 per cent; and
- Liquidity Ratio (LR) at 30.0 per cent.

9. EMEFIELE, GODWIN I.

GOVERNOR OF THE CENTRAL BANK OF NIGERIA AND CHAIRMAN, MONETARY POLICY COMMITTEE

My overall inclination during this meeting is that of cautious optimism. As global economic recovery continues in 2021, I note that *it is not yet uhuru*, especially for EMDEs including Nigeria. Outlook of the domestic economy remains fragile with tepid growth and sluggish disinflation even as downside risks to growth and inflationary pressure persist. I recognise the need to consolidate recovery at this time and strengthen the structural base of the domestic economy. I am mindful of the policy dilemma before us as we desire faster disinflation and growth. As global rebound intensifies within the short-term, Nigeria's fragile prospect must be strengthened to ensure the growth of per capita income.

Stronger recovery of global economy is expected as countries increasingly re-open from covid-19 restrictions. This will be reinforced by the rebound in merchandise trade and industrial production, even as international services activities (like tourism) remain muted. However, brightening short-term global growth outlook remains uneven, vaccine-dependent and largely driven by advanced economies. In many advanced economies, growth outcomes in the first two quarters of 2021 surpassed forecasts and may improve further. Accordingly, global growth projections for 2021 and 2022 could yet be upgraded, reflecting a widespread pick-up in economic activities, increased vaccine rollout, and continued government stimulus across countries. This could be accompanied by moderate uptick in global inflation and a prospect of monetary policy normalisation in the short-term. However, unequitable administration of vaccines in the face of mutating strains of the COVID-19 virus remains a major threat to recovery among vulnerable EMDEs.

Sustained synchronisation of fiscal and monetary support for businesses and households as well as better macroeconomic sentiments (as economic agents acclimate to the new-normal of life with the Pandemic) is expected to strengthen the Nigerian economy. Short-term outlook of the domestic economy is brightening as key macroeconomic metrics show favourable outcomes, although they remain vulnerable and outside desired levels. The sizable and coordinated expansionary policy to boost consumer spending, support businesses and curtail the adverse shocks from COVID-19 continue to drive a rebound in output growth. The upturn of domestic economic activities is progressive but marginal and below historical average. Disinflation has equally

been recorded for three consecutive months *albeit* sluggishly. Our medium-term aim is to revert to growth rates above historical levels, raise per capita income (as GDP outpaces population growth rate), and achieve single-digit inflation rate.

In the near-term, I expects domestic fragility to gradually dissipate and inflation to moderate, following our various supply-side interventions. Recent data show continued upturn in manufacturing and non-manufacturing PMIs in July 2021 to 46.6 and 44.8 points, respectively, indicative of weak but improving domestic conditions. Accordingly, real GDP, driven by recoveries in non-oil activities (i.e. agriculture and industry sectors) and rebounding crude oil prices, is projected to grow by nearly 1.5 percent in 2021Q2 from 0.5 percent in 2021Q1 and 0.1 percent in 2020Q4. In-house analyses project growth for the entire 2021 at 3.2 percent (while the IMF forecasts 2.5 percent), based on orderly implementation of macroeconomic policies. To ensure sustainable and fast-tracked GDP growth (surpassing population growth) rate, we will continue to collaborate with fiscal authorities to proactively target and stimulate high impact productive sectors.

Reflecting the continued fall in food inflation, headline inflation rate moderated slightly (for the 3rd consecutive month) to 17.8 percent in June 2021 from 17.9 percent in May. The exchange rate, energy prices and lingering insecurity remain the key drivers of inflation. Near-term inflation expectations are prominently outside the CBN corridor and prescribes a quickening disinflation. Notably, current inflation level is not unanticipated given our decisive expansionary policy stance aimed at reversing the adverse effects of the COVID-19 shocks on real output. This underscores the continued need to delicately balance inflation and growth objectives.

Domestic financial market conditions appear constrained, with a bearish stock market, tight money market conditions, and coarse foreign exchange market. Liquidity tightness illustrates the rise in market interest rates during the month. Weighted average inter-bank call and open-buy-back rates rose from 16.0 and 16.2 percent, respectively, in May 2021 to 16.9 and 16.4 percent in June. Correspondingly, month-on-month growth rate of aggregate money stock (M_3) declined from about 3.0 to 2.0 percent, reflecting the slowdown in NFA and NDA. Though the pace of aggregate credit net fell from 4.8 to 4.3 percent, it recorded a year-to-date growth of N1.6 trillion due to the various policies and initiatives of the Bank to expand credit flows to the real sector of the economy

at this critical time. Amidst rising credits, the banking system remained pleasingly stable and resilient as indicated by robust industry averages of key FSI.

In my consideration, I note that the direction of economic developments is satisfactory but the pace is less-than-desired. Output growth rate, though positive for two consecutive quarters, remains tepid, fragile and below potential. Inflation rate has moderated for three consecutive months but stays at growth inhibiting levels. I note also the frail but improving short-term domestic outlook and the need to accelerate the pace of GDP growth over population growth rate to ensure increased welfare of the Nigerian economy and reductions in the levels of poverty and unemployment. I note the fundamental trade-off between GDP and inflation, especially as recovery remains fragile and inflation higher-than-desired. I continue to favour measures to boost domestic supply capacity and quicken reversion to pre-2015 average.

With weak growth and high inflation, I recognise the policy quagmire of either to ease (strengthen growth), tighten (curb inflation) or hold (allow continued permeation). All three options are justifiable at this time, given the short-term outlook. I am not willing to distort the current trajectories of either growth or inflation. Though, the mandate of price stability remains sacrosanct and justifies the need to tighten, the overall economy remains weak and vulnerable to adverse policy shocks. I believe that an aptly timed and measured tweak will aid disinflation without significantly undermining output growth. I am again inclined towards a balanced and cautious decision. My position is thus to maintain the current stance of monetary policy and avoid policy-induced distortions, while deepening our interventions. Therefore, I vote to:

1. Retain the MPR at 11.5 per cent.
2. Retain the asymmetric corridor at +100/-700 basis points around the MPR.
3. Retain the CRR at 27.5 percent; and
4. Retain liquidity ratio at 30.0 percent

GODWIN I. EMEFIELE, CON

Governor

July 2021